The Encyclopedia of Housing

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Housing in Canada

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► Housing Abroad: Canada

As a highly urbanized nation, Canada has high land and housing costs in the larger metropolitan areas. Canada's 30.5 million people live in 11.6 million households, 78% in urban areas. One-third of all Canadians live in the three largest metropolitan areas—Toronto, Montreal, and Vancouver (1998 figures). Urban as well as regional population concentration is a continuing trend. Ontario, the largest province, had 38% of the nation's population (5% more than three decades ago).

Demand for housing is fueled not only by this internal migration, leading to greater urban and regional concentration, but also by declining household size and high immigration levels. Average household size has slipped from four persons per household 1951 to 2.6 in 1996. During the same period, one-person households increased from 7% to 24% and two-person households from 21% to 32% of the total. Less than 5% of all households had five or more persons, compared with 33% in 1951. In addition, Canada accepts about 200,000 immigrants and refugees annually, most of whom settle in the three largest metropolitan areas. In 1998, 5.1 million Canadians (17% of the population) were immigrants and more than half (57%) lived in the Toronto, Montreal, and Vancouver metropolitan areas. The Toronto area alone is home to 1.5 million immigrants (38% of Toronto's population).

On average, Canadians spend 18% of their gross household income on housing (excluding utilities). About 20% of Canada's households spend more than 30% of household income on shelter. Of these, 58% were renters, 36% were owners with mortgages, and 6% were mortgage-free owners. Homeowners have about double the median household income of renters. Housing expenditures-to-income ratios are highly unequal owing to the large gap between rich and poor. The highest two-income quintiles spend 7% and 12% of household income on housing, the middle quintile spends 20%, and the lowest two spend 25% (the second lowest) and 36% (the lowest-income quintile).

Homeownership

Just under two-thirds of Canadian households are homeowners. The homeownership rate has fallen from 66% in the 1950s and 1960s to about 62% since the mid-1970s. There are significant regional variations: 75% in the Atlantic provinces, 66% in the prairie provinces, and 55% in Quebec. Ontario and British Columbia are close to the national average of 64%.

The typical house-building firm in Canada is small, building fewer than 10 houses per year. Even the largest firms, which may build up to 2,000 houses per year, are small in scale compared with the average firm in other goods-producing industries (e.g., automobiles, consumer appliances). Few house builders operate in more than one market area.

Until condominium ownership was introduced during the early 1970s, most homeowners occupied a detached or semidetached dwelling. About 57% of the housing stock consists of single, detached houses, a decline from about 70% in the 1950s. The introduction of condominiums allowed households in the more expensive urban markets to become homeowners. There are about 370,000 owner-occupied condominiums located mainly in the larger metropolitan areas (6% of the owner-occupied housing stock). Half of Canada's homeowners have paid off their mortgage. Property taxes and mortgage interest on owner-occupied houses are not tax deductible. The major tax advantage for homeowners is a tax exemption for capital gains on owner-occupied houses. In 1954, the federal government introduced mortgage insurance, protecting lenders from loss on insured loans. This not only made available greater private sector lending but also allowed Canada's banks to enter the mortgage-lending business. In the late 1960s, the

practice of setting a National Housing Act (NHA) mortgage interest rate was discontinued.

Between the early 1970s and mid-1980s, a variety of short-term subsidy programs were introduced to assist first-time homebuyers and to stimulate home construction. They included a tax-subsidized down payment savings program, one-time cash grants to assist with the down payment, and mortgage interest rate subsidies. There has been no thorough evaluation of the impact of these programs, which were ad hoc responses to political pressure from the house-building industry and from middle-class voters facing high mortgage interest rates. Homeownership levels, however, did not increase as a result of these initiatives. Analysts tend to agree that these programs shifted demand for owner-occupied housing forward and that upwardly mobile middle-income households tended to be the beneficiaries. There had been no noticeable beneficial impact on the rental market in terms of relieving demand pressures. Interprovincial migration, immigration, and demographic change are major factors determining changes in demand in urban rental housing markets.

Private Renting

Canadians who cannot afford to own a house are renters in either the private rental sector (30.4% of households) or in the relatively small nonmarket social housing sector (5.6% of households). Private renting has increasingly become a residual sector. Anyone who can afford to buy a house or condominium tends to do so. Since the early 1970s, an increasing percentage of lower-income households are renters (from 45% in 1971 to 65% in 1996 for the lowest-income quintile), whereas fewer high-income households remain in the rental sector (a decline of 25% to 11% of the highest-income quintile households). This trend means that the private rental sector will continue to be dominated by households with incomes in the lowest two quintiles of the population, and consequently, the least economic resources to stimulate economic demand in the rental market. Growing social need rather than market demand is the result.

This polarization of Canadian households by tenure and income has already caused serious supply problems in the private rental sector. The rent levels required to cover the cost of building new units are well above the ability of a majority of renters to pay. Vacancy rates across Canada, especially in some major cities, have been extremely low since the early 1970s. Except for recessions, the average vacancy rate for the largest 25 metropolitan areas is about 2% over the past decades. Toronto and Vancouver typically have vacancy rates under 0.5%. These low vacancy rates have not led to much unsubsidized private investment in the construction of new rental housing. The continuation of a viable private rental market, as a source of new rental units, is in doubt owing to the upward cost pressures on supplying a rental unit and the downward trend in the income profile of renters.

Between 1974 and 1985, a number of federal and provincial rental housing supply subsidy programs were initiated, providing investors with either tax benefits or subsidized second mortgages for a 10- or 15-year period. The subsidies were not deep enough to assist those in need, and the supply of new units was not adequate enough to have much impact on vacancy rates in the more expensive and tighter rental markets. The share of the rental sector composed of conventional apartment buildings continues to decline. The rental stock in the greater Toronto area (650,000 units in 1998), for example, consists of the following mix of unit types: 49% conventional private sector apartment buildings, 20% social housing units, 14% rented houses, 9% apartments in houses, and 8% rented condominium apartments. In 1994, Ontario became the first province to allow one self-contained apartment to be created by any homeowner, thus eliminating the illegal zoning status of some 100,000 apartments in houses.

Social Housing

About 625,000 rental units (5.6% of Canada's housing stock) is owned and operated outside the private sector. Subsidized housing policy and programs in Canada and the United States, once very similar, have developed along very different lines since the 1970s. Canada was one of the last Western nations to initiate a public housing supply program (in 1949). What is commonly known as public housing in Canada consists of federally subsidized housing owned and managed by public housing authorities with means test criteria that target 100% of the units for the very poor. There are about 205,000 public housing units, built mainly during the 1960s and 1970s (about 2% of the housing stock). Of the projects, 80% contain fewer than 50 units, although the 11% of the projects that have more than 100 units account for nearly half the total stock.

By the late 1960s, widespread dissatisfaction with public housing created the political will to experiment and innovate with improved means of supplying and managing nonmarket housing for low- and moderate-income households. The 1973 amendments to the NHA created a permanent stock of good quality nonprofit "social housing" along with a community-based housing development sector (commonly called the "third sector," in contrast to the private and state sectors). Responsibility for housing policy and programs is shared by the federal and provincial governments, although the federal government has played the major role. The Canada Mortgage and Housing Corporation (CMHC) is the federal government's housing agency that administers the NHA programs.

The public, private and cooperative versions of nonprofit housing as well as the rural and native nonprofit housing programs are together commonly called *social housing*. They are socially assisted (receive direct subsidies), and in contrast to the older public housing program, they house people from a broader social and income mix. The smaller-scale social housing projects, developed and managed by local groups, including the residents themselves, was viewed as a preferable option for tenants and for the communities being asked to accept them. Since 1973, Canada has built about 400,000 social housing units (which equals about 3.5% of the total housing stock). About 50,000 of these were financed by provincial governments (Ontario, Quebec, and British Columbia), with the rest financed jointly by federal and provincial governments.

The more innovative component of Canadian nonprofit housing, and as a result, the most closely watched and evaluated, is the nonprofit, nonequity cooperative housing program. After a review of housing and urban development policy in 1969, federal government housing officials agreed that socially mixed nonprofit housing cooperatives were an improved alternative to the large public housing projects that were often built in conjunction with urban renewal. The 1973 amendments to the NHA created a national co-op housing program. Unlike other types of nonprofits, members of housing co-ops own and manage their projects. It is a nonequity form of homeownership. In the mid-1980s, the federal government explicitly defined the objective of the cooperative housing program as providing "security of tenure for households unable to access homeownership." Co-op housing units cannot be sold or even passed on to a friend. When someone moves out, another household from the co-op's waiting list moves in. Because residents do not invest in the units, they take no equity when they leave. Canada's 2,000 housing co-ops (with 80,000 units) are democratically owned and managed subsidized housing. A majority (70%) of Canada's housing cooperatives are managed directly by the residents on a voluntary basis. About 30% of the cooperatives, usually the larger ones, retain full-time or part-time paid staff.

In 1986, the federal government and the cooperative housing movement agreed to experiment with a new mortgage instrument, the index-linked mortgage (ILM) rather than the equal-payment mortgage (EPM). Interest rates on ILMs are based on a fixed "real" rate of return—the rate of return the lender wants after inflation—plus a variable rate adjusted according to inflation. Therefore, no provision has to be built into the rate of interest to take account of risk—anticipated inflation—as there is in EPMs. This makes the initial payments of ILMs much more affordable to potential borrowers. To maintain the real rate of return that the lender wants, the interest rate is adjusted periodically based on the rate of inflation. The federal government's evaluation of the ILM after its initial five years in operation found that lower than real interest rates were realized by the ILM, making it "a more cost-effective mortgage instrument than the EPM," resulting in savings that makes the latest funding formula "a more cost-effective way to deliver co-operatives housing" than previously.

In the early 1990s, like the Reagan and Bush administrations in the United States, Canada's Conservative government made a decision to curtail much of its spending on social housing. Very few new projects are being built in the mid-1990s as a result. In the 1980s, the province of Ontario initiated its own unilateral social housing supply program to help address housing needs in that province, building about 45,000 units. A change in government in 1995 also resulted in the termination of Ontario's social housing supply program.

Conclusion

Canada's housing system is characterized by a reliance on the private sector to develop land, build new housing, and renovate existing housing. A small niche for nonprofit and cooperative housing emerged from a process of experimentation and steady growth through the 1970s and 1980s. By the mid-1990s, few subsidy programs remain in either the private or nonprofit sectors. The rate of homeownership is about the same as in the United States, even though there is no mortgage interest and property tax subsidy program in Canada.

The gap between housing costs and household incomes in Canada is a serious one, particularly for renter households. Many families and individuals have incomes that are inadequate to keep pace with the cost of housing in many parts of the country.

The Canadian experience with its innovative form of social housing supply and management shows that it takes time to build the capacity of the municipal and community-based nonprofit sector. A community-based nonprofit housing development capacity cannot emerge, mature, and sustain itself without longer-term stability in government commitment to social housing supply programs. Canada has spent almost two decades developing and investing in a community-based nonprofit housing capacity—with program delivery mechanisms that work reasonably well, with dependable, although recently declining, funding and increasingly experienced and sophisticated nonprofit developers and managers. The Canadian experience shows that the incubation process pays off down the road. In broad terms, what a successful nonprofit housing sector requires is a coordinated national system to undertake two goals: capacity building, to enhance the organizational capacity of the nonprofit sector at the local level; and development support, to provide subsidy resources for their housing development activities. This is what Canada began doing in 1973, although the federal government's commitment to this policy was being reassessed in the 1990s. (SEE ALSO: *Canada Mortgage and Housing Corporation; Cooperative Housing;* Cross-National Housing Research)

—*J. David Hulchanski*

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